

Message Text

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ACTION NEA-10

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STADIS//////////

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TAGS: EAID, EAGR, CE
SUBJECT: FLOUR MARKETING RESEARCH PROJECT

REF: (A) STATE 078565, (B) COLOMBO 1367

1. REFTEL B WAS DRAFTED BY RICHARD PARRY OF USDA'S REGIONAL RESEARCH OFFICE IN NEW DELHI AND CLEARED BY DCM, ECON, AND USAID. PARRY WAS VISITING SRI LANKA TO CHECK ON THE ONE REMAINING RESEARCH PROJECT BEING CONDUCTED BY THE UNIVERSITY OF SRI LANKA AND FUNDED FROM PRE-1969 PL 480 RUPEES. HE WAS ALSO HERE IN RESPONSE TO A REQUEST BY THE FOOD COMMISSIONER TO WESTERN WHEAT ASSOCIATES (WWA) FOR ASSISTANCE IN STUDYING THE PROBLEM OF HOW BEST TO DISTRIBUTE THE 2,500 TONS OF FLOUR PER DAY TO BE PRODUCED BY THE NEW TRINCO MILL.

2. THIS PROBLEM WAS RAISED BY WWA DURING THE FEBRUARY VISIT OF USDA GENERAL SALES MANAGER KELLY HARRISON TO NEW DELHI. ACCORDING TO PARRY, HARRISON THOUGHT USDA SHOULD LOOK INTO THE POSSIBILITY OF SPONSORING A FLOUR MARKETING STUDY AND SUGGESTED OFFERING 50,000 TONS OF WHEAT GRAIN IN ADDITION TO THE 200,000 TONS OF FLOUR UNDER THIS YEAR'S PL 480 TITLE I AGREEMENT TO PROVIDE FINANCING. THIS WOULD ADD AT LEAST \$6 MILLION TO THE PL 480 PROGRAM, AND HARRISON'S

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IDEA WAS TO MAKE THIS ADDITION CONTIGENT ON THE GSL AGREEING TO SET ASIDE THE LOCAL CURRENCY EQUIVALENT OF ROUGHLY \$200,000 FOR THE STUDY. MOST OF THE STUDY WOULD BE DONE BY LOCAL TALENT (E.G., THE MINISTRY OF AGRICULTURE, THE CENTRAL BANK, AND/OR THE UNIVERSITY OF SRI LANKA) WITH AN EXPERT OR TWO BROUGHT IN FROM THE US.

3. THE AID MISSION HAD SOME CONCERN THAT USDA WAS INTRUDING ON ITS TURF SINCE THERE IS AN AID PROJECT ON RICE MILLING AND DISTRIBUTION. IT IS OBVIOUS, HOWEVER, THAT THE WHOLE FOOD SYSTEM SHOULD BE STUDIED AND NOT JUST THE DISTRIBUTION OF INDIVIDUAL COMMODITIES. IF THE USDA'S IDEA IS ACCEPTED BY THE GSL, THE EMBASSY BELIEVES IT SHOULD BE A PART OF A LARGER UNDERTAKING WHICH WOULD INCLUDE AID'S WORK ON RICE. THIS IS ALL IN THE VERY PRELIMINARY STAGES OF THINKING AND DEPENDS ON WHETHER OR NOT 50,000 TONS OF GRAIN CAN BE PROVIDED UNDER PL 480. IT IS HOPED THAT HAL NORTON CAN GIVE US A FIRMER READING ON THIS QUESTION WHEN HE ARRIVES IN COLOMBO AT THE END OF THIS WEEK.

4. THE REAL PURPOSE OF THIS EXERCISE WOULD BE TO GIVE THE SRI LANKANS SOME EXPERIENCE IN MILLING AMERICAN WHEAT. THE EXISTING FLOUR MILL IN COLOMBO HAS USED NOTHING BUT AUSTRALIAN WHEAT SINCE IT WENT ON STREAM IN 1969. IT WAS NOT UNTIL 1977 THAT THE STATE FLOUR MILLING CORPORATION CONSIDERED SUPPLIERS OTHER THAN AUSTRALIA. THE AUSTRALIANS WON THAT TENDER ONLY BY BIDDING WELL BELOW WORLD MARKET PRICE TO RETAIN THIS MARKET. AT THE PRESENT TIME, US WHEAT PRICES AND FREIGHT RATES ARE FULLY COMPETITIVE WITH AUSTRALIAN. WHEN THE FLOUR MILLING CORPORATION TENDERS AGAIN IN APRIL OR MAY, US BIDDERS WILL BE HERE IN FORCE. THE MAJOR PROBLEM IS THE CHIEF MILLER KNOWS

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ONLY AUSTRALIAN WHEAT AND SEEMS RELUCTANT TO TRY ANYTHING NEW. WWA, WHICH IS PREAPRED TO SUPPLY A FREE MILLING CONSULTANT, BELIEVES THAT ONCE THE SRI LANKAS TRY US WHEAT THEY WILL LIKE IT. WE HAVE NOT BEEN COMPETITIVE WITH EUROPEAN FLOUR DUE TO EC SUBSIDIES, BUT THE EMBASSY UNDERSTANDS THERE ARE NO MORE FUNDS FOR EC SUBSIDIES.

5. WWA HAS BEEN WORKING VERY CLOSELY WITH PRIMA IN SINGAPORE WHICH IS THE COMPANY SUPPLYING THE TRINCO MILL. ACCORDING TO WWA, PRIMA PREFERS US WHEAT, BUT IT WILL BE THE GSL NOT PRIMA THAT BUYS THE WHEAT FOR THE NEW MILL. GSL OFFICIALS HAVE ALREADY INDICATED THAT THEY WILL WANT TO SHIFT FROM FLOUR TO WHEAT GRAIN UNDER PL 480 WHEN THE NEW MILL BEGINS OPERATIONS LATE 1979 (I.E., FY 1980). THE NEW MILL WILL REQUIRE BETWEEN 500,000 AND 600,000 TONS OF GRAIN PER YEAR, BUT PL 480 IS LIKELY TO PROVIDE ONLY ABOUT HALF THAT AMOUNT AT BEST; THE REST WILL HAVE TO BE COMMERCIAL PURCHASES.

6. WITH BOTH MILLS IN OPERATION, SRI LANKA WILL BE BUYING 300,000 TO 400,000 TONS OF WHEAT GRAIN COMMERCIALLY EACH YEAR. THE EMBASSY AND WWA BELIEVE

THE US HAS A GOOD CHANCE OF CAPTURING A MAJOR PROTION OF THIS MARKET. WWA IS TAKING FLOUR MILLING CORPORATION CHAIRMAN FERNANDO, FOOD COMMISSIONER HASSAN, AND TWO OTHER GSL OFFICIALS FOR A TOUR OF US WHEAT GROWING AND PROCESSING AREAS IN JULY. WWA HAS AN EXTENSIVE MARKETING PROGRAM OF TRAINING AND TECHNICAL ASSISTANCE TO ENCOURAGE THE GSL TO BUY AMERICAN. SOME WHEAT GRAIN UNDER PL 480 COULD GIVE THE WHOLE PROGRAM THE PUSH IT NEEDS TO OVERCOME GSL INERTIA.

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